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GEORGE B. CHRISTIAN, Jr.,
Secretary to the President.

ADDRESS
OF THE
PRESIDENT OF THE
UNITED STATES

ON TAXATION AND
EXPENDITURE

AT

SALT LAKE CITY, UTAH

Tuesday evening, June 26, 1923



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ADDRESS.

MY FELLOW COUNTRYMEN: There is a suggestion of personal tribute in choosing my topic for an address in Salt Lake City. I have so long associated Senator Smoot with great problems of taxation, and have witnessed so much of his able and faithful endeavor to enforce economy and thereby lift the burdens of taxation, that I find myself involuntarily thinking, when I come to your State, of the menace of mounting taxes and growing public indebtedness. The removal of this menace is not alone a Federal problem, for we are recording gratifying progress so far as the Nation is concerned, but the larger menace to-day is to be faced by municipality, county, and State. The Federal Government is diligently seeking to prove itself a helpful example, but the improved order must come in the units of Government into which Federal Government never intrudes. There is no particular reason why I should speak of it, except that we are all concerned about general public welfare, and I have thought that possibly a recital of Federal accomplishment would serve to encourage in a State and local work which must be done.

A short time before I became President, a trusted but cynical old friend said to me one day that he understood I intended to make a speciality of economy in administration. I admitted my aspirations in that direction, and he replied:

"Well, that's the right idea, but don't tell anybody about it. You may think it will be appreciated, but it will not. Every time you lop somebody off the Government pay roll or keep him out of a profitable piece of Government business, you make him and all his friends and associates your enemies; and, on the other side, not a soul in the country will ever thank you for it. Everybody grumbles about taxes, and nobody ever demonstrates any appreciation of the man that tries to save them from taxes."

A short time before we left Washington on the present trip another friend said to me: "The administration has saved the country a good deal by reducing its expenses and cutting down the tax burden. But take my advice, and don't talk to any of your audiences about it. People always grumble about taxes, but they don't want to hear anybody talk to them on that subject."

To which I replied that I believed, in the present state of affairs, all such rules were suspended, and any public man who had anything cheerful to say on the subject of taxes and Government expenses, would find plenty of audiences altogether willing to listen to him. I believe the American people are so profoundly interested in the subject of taxation and Government costs nowadays, that an audience like this will even be willing to let me talk to them a few minutes on the subject.

One of the financial incidents to our participation in the war was to loan a vast sum of money to our allies. I wonder how many of you ever stop to think that the \$10,000,000,000 which we advanced to our allies, after our entrance into the war, was just about the same as the total cost of the Civil War to North and South together. The Civil War lasted four years and strained every nerve and resource of the Nation. Yet its actual cost to the Governments of both sides was considerably less than the amount we advanced to the Allied Governments during the World War.

And that was only a mild beginning of our financial transactions in war. For every dollar we loaned to our Allies, we spent about three more on our own account. In a little more than three years, between the day war was declared and peace was signed, we spent twice as much money out of the Public Treasury as had been spent by the National Government in all of its previous history. I am not going to talk to you to-day about whether the money was all wisely spent. Whether it was or not, the results were worth all they cost, and a good deal more. What I propose to present to you now is some consideration of the fact that no matter how willing we were to make the sacrifice, no matter how cheerfully we incurred the obligations, we had to face at the end the big and very practical reality that these obligations must be paid.

You have inferred from what I said a moment ago that we spent roundly \$40,000,000,000 on the World War. How many of us ever stopped to think that that was rather more than the total wealth of the Nation at the time of the Civil War. We paid out of our current taxes, while the war was going on, more than 25 per cent of its cost; that is, as much as the entire national wealth so late as the year 1820. At the beginning of August, 1919, the public debt reached the highest point in its history, \$27,500,000,000. That was just about ten times the amount of the national debt at the close of the Civil War.

We are still too close to the events of the Great War to be able to realize the enormous burdens placed on our country. Quite aside from the large operations of public finance which it necessitated, private finance has been called upon from the very beginning in 1914 to make special arrangements for financing the huge foreign trade

that resulted from Europe's extraordinary demands. Long before we were in the war our financial machinery had been compelled to shoulder the financing of an enormously exaggerated export trade to the warring powers. For a time Europe withdrew gold from us in great quantities, but presently it returned in yet greater, bringing to us and to the European countries the difficult problem of maintaining the exchanges and supporting the gold standard. Costs of everything rose to an artificially high basis, and in every direction expenditure was stimulated.

Altogether, the war¹ was not only the greatest horror the world has ever known, but the greatest orgy of spending. This was inevitable, but that fact does not make the results any easier to deal with. The cost of government, of business, of every domestic establishment went up enormously. Every business man, and every householder, knows how it affected his personal concern. I want to suggest some of the ways in which it affected the whole business of government; government of the States, the cities, the Nation, the expenses of every revenue-raising and spending division throughout the Nation.

Recently I have been furnished with some specific figures on this subject of the cost of government by the Bureau of the Census. I am not proposing to impose upon your patience with an elaborate presentation of figures, but I want to suggest a few that will point my observations about the enormously increased cost of government everywhere. Take the cost of State governments. I am informed that the revenues of the States in 1913 aggregated \$368,000,000, and that in 1921 they had increased to \$959,000,000; that is, they had increased 161 per cent, and every dollar of that increase had to come in some way or other from the public. The expenditures of the States in 1913 aggregated \$383,000,000, and in 1921 they were \$1,005,000,000; an increase of 163 per cent. The indebtedness of the States in 1913 amounted to \$423,000,000, and in 1921 to \$1,012,000,000; an increase of 139 per cent.

Turn now to the cost of city government. The Census Bureau has compiled data on the governments of 227 of the large cities. It is shown that these cities in 1913 collected \$890,000,000 in all revenues, and in 1921 they collected \$1,567,000,000; that is, they were compelled to take 76 per cent more in taxes in 1921 than they had taken in 1913. The same group of cities expended in 1913, \$1,010,000,000, and in 1921, \$1,726,000,000—an increase of 71 per cent. The total debt of this group of cities in 1913 was \$2,901,000,000, which by 1921 had risen to \$4,334,000,000—an increase of 49 per cent.

County administration appears, from the rather limited information which at this time the census authorities have been able to produce, to have shown a much larger proportionate increase in cost

and tax collections than did the government of cities. It is stated that for 381 counties, distributed among 38 States, and regarded as fairly typical, the increase in receipts from principal sources of revenue increased 127 per cent from 1913 to 1922; that is, for every hundred dollars of revenue collected in 1913 \$227 was collected in 1922. And that is not all of it. The total indebtedness of these same 381 counties increased 195 per cent in the same period; that is, for every hundred dollars of debt in 1913 they had \$295 of indebtedness in 1922. Statistics were not available dealing with cities and towns of less than 30,000 population; nor with townships, school districts, drainage districts, irrigation districts, road districts, and other subdivisions which exercised the power to raise revenues and incur debts. It is well known, however, that substantially similar increases have affected all these taxing subdivisions.

The figures of both the Treasury and the Census Bureau, in short, make it perfectly plain that whereas the cost of the Federal Government is being steadily reduced, the cost of State and local governments is being just as steadily increased year by year. In nearly all of the States the cost of State and local governments increased from 1919 to 1922. The Treasury made up statistics on this point for one group of 10 States—Arizona, Connecticut, Michigan, Minnesota, New Hampshire, Ohio, Oregon, South Dakota, Washington, and Wisconsin. For this representative group it is shown that while Federal taxes paid by these 10 States declined from over a billion dollars in 1920 to \$650,000,000 in 1922, their State and local taxes rose from \$728,000,000 to \$965,000,000 in the same period. In another tabulation, covering 28 States, which was the entire number for which the statistics were available, it was shown that from 1919 to 1921 there were increases in local taxes in 23 States and reductions in only 5. In spite of the enormous burden of paying for the war and paying interest on the war debt, State and local taxes in 1922 represented 60 per cent of all taxes paid.

Let me present another aspect of the same matter. We hear much about the grievous burden of the income tax, and everyone of us who pays it is able fully to sympathize with everyone else who pays it. But it is fair to consider what our income taxes would be if we lived in some of the other debt-burdened countries of the world. A married citizen of the United States, with two children and an income of \$5,000, paid \$68 tax on that income in 1922. If he had been a citizen of Canada he would have paid \$156. If the German tax rate had been applied to his income, it would have cost him \$292. If he had been a Frenchman the French rate would have required him to pay \$96, and if he had been a British citizen, instead of giving up the \$68 which he paid to Uncle Sam, he would have drawn his check for \$320.76. The same man, with an income of \$10,000,

would have paid \$456 income tax in the United States and \$1,128.32 in England.

The great burden of the war was, of course, imposed on the National Government. The Department of the Treasury states that in 1917 the Federal Government's revenues were \$1,044,000,000; in 1918 they were \$3,925,000,000; in 1919 they were \$4,103,000,000; in 1920 they were \$5,737,000,000; and in 1921 they were \$4,902,000,000. For 1922 the total dropped to \$3,565,000,000, and for 1923 it is estimated at \$3,753,000,000. Assuming continuation of the present basis of Federal taxation, the receipts for 1924 are calculated at \$3,638,000,000, and for 1925 at \$3,486,000,000.

Not all of this revenue is raised by direct taxation. The Treasury estimates indicate that in 1923 only \$2,925,000,000 and in 1924 \$2,850,000,000 will be produced by direct taxation; the remainder will come from various miscellaneous receipts of the Government. You will, I am sure, be interested in the Treasury's statement that whereas in 1914 the per capita cost to all the people of the Federal Government was \$6.97, that in 1918 it reached \$36.64 and in 1919 \$37.91. It might reasonably have been presumed that with the war now long past taxes would have begun to fall off, but the statistics show the contrary. Instead of a reduction, taxes for the fiscal year 1920 rose to \$53.78 per capita, which was the peak of the war burden. Even for 1921 they only fell to \$45.22. But in 1923 they will be \$26.29, or considerably less than half as much as in 1920. Figures, especially the figures which represent such an authority as the Treasury Department, are conclusive arguments. These figures show that for two years after the war ended Federal taxes continued much higher than at the height of the struggle. They show that in the first two years of peace the cost of Government was still continuing above the 1918 level, but that since the high point of 1920 they have been reduced more than one-half. It is a record of business administration to which the party now in control of the administration feels justified in referring with no small measure of satisfaction.

I have observed that the cost of the war to our Government was around \$40,000,000,000. After paying a generous share, about 25 per cent, from current revenues collected while the war was in progress, we still had to borrow enormously. At its highest point, on August 31, 1919, the national debt was \$26,596,000,000. I know you will be interested to be told that from that day, August 31, 1919, to June 30, 1923, we have reduced it to \$22,400,000,000—a reduction of considerably more than a billion dollars a year. Moreover, we are now working under a program which involves extinguishing a half billion of the debt each year. No other country in the world has been able to make such a record.

In addition to all this, we have within the past year settled the British war debt to our Government, arranged for its funding and its gradual extinction over a long period of years. In recognition of the notable service of Secretary Mellon, his associates at the Treasury, and the members of the Debt Funding Commission and the American ambassador to Great Britain, I wish to say that this settlement of the British debt has been acclaimed all over the world as one of the most notable and successful fiscal accomplishments ever recorded. Not only does it insure that the regular quarterly payments which the British Government will make to our Treasury will correspondingly relieve the burden upon American taxpayers, but the more important fact, in a time of widespread uncertainty and misgiving throughout the world of business everywhere, that these two great Governments could get together and arrange such a settlement has been one of the most reassuring events since the armistice.

There had been too much talk of possible cancellations or repudiations of the war debt. Such a program would have wrecked the entire structure of business faith and of confidence in the obligations of Governments throughout the world. There was need, pressing and urgent need, for such a sign of confidence, assurance, and faith in the future as this settlement furnished. When the British and American Governments united in this pledge that their obligations would be met to the last shilling and the last dollar, there was renewed financial confidence in the world. I undertake to say that no event since the conclusion of hostilities has contributed so much to putting the world back on its way to stabilization, to confidence in its Governments, and to the established conviction that our social institutions are yet secure.

No consideration of public finances can omit the fact that the single item of interest on the public debt exceeds \$1,000,000,000 annually. For the fiscal year 1923, this item will be \$1,100,000,000. Beyond this, we will reduce the public debt this year by \$330,000,000, and next year by approximately \$500,000,000. That is, over 35 per cent of the national revenue will this year go to paying interest or extinguishing the principal of the public debt.

I have not been able to gather conclusive statistics as to the accomplishments of States, cities, and counties, to compare with this showing of the Federal Government. But with some general knowledge of the fiscal positions of States and cities in general, I feel quite safe in proffering my congratulations to any State, any city, any foreign country, which has made a better showing in the matter of reducing its public debt within the period since the war. I most earnestly regret that all have not been able to make a similar showing.

On this latter point I wish to say a word further. Taxation decidedly is a local as well as a national question. Prior to the war Federal taxation was an unimportant item; so small that in 1917 State and local taxes, in a group of 10 representative States, in all parts of the country, constituted 73 per cent of the entire tax burden.

The Federal tax was indirect and unfelt. Then came the enormous cost of the war, which the Federal Government had to bear, and in 1918 State and local taxes constituted only 42 per cent of the entire tax burden. In 1919 they represented 44 per cent of the whole; in 1920, 41 per cent. But in 1922, the last year for which figures are available, State and local taxes were again in excess and represented 60 per cent of the entire tax burden. The States represented in this calculation are Arizona, Connecticut, Michigan, Minnesota, New Hampshire, Ohio, Oregon, South Dakota, Washington, and Wisconsin.

The world, its Governments, its quasi-public corporations, its people, acquired the spending habit during the war to an extent not merely unprecedented, but absolutely alarming. There is but one way for the community finally to get back on its feet, and that is to go seriously about paying its debts and reducing its expenses. That is what the world must face. The greatest and richest Government must face it, and so must the humblest citizen. No habit is so easy to form, none so hard to break, as that of reckless spending. And on the other side, none is more certain to contribute to security and happiness, than the habit of thrift, of savings, of careful management in all business concerns, of balanced budgets and living within incomes. If I could urge upon the American people a single rule applicable to every one of them as individuals, and to every political or corporate unit among them, it would be to learn to spend somewhat less than your income all the time. If you have debts, reduce them as rapidly as you can; if you are one of the fortunate few who have no debts, make it a rule to save something every year. Keep your eye everlastingly on those who administer your governmental units for you; your town, your county, your State, your National Government. Make them understand that you are applying the rule of thrift and savings in your personal affairs, and require them to apply it in their management of your public affairs. If they fail, find other public servants who will succeed. If they succeed, give them such encouragement and inspiration as will be represented by a full measure of hearty appreciation for their efforts.

This brings me to a brief reference to what has proven so helpful to the Federal Government in effecting the approach to the expenditures of normal times. For the first time in our history we have the National Budget, under which there is an effective scrutiny of estimates for public expenditure. More, we have coordinated Gov-

ernment activities in making the expenditures which Congress authorizes.

It seems now unbelievable that we should have been willing to go for a century and a third without this helpful agency of business administration. But we did, and only now have we come to an appraisal of the cost of this great neglect.

It has been no easy task to establish the Budget and make sure of its acceptance. Out of long time practices the varied and many Government departments felt themselves independent institutions, instead of factors in the great machinery of Government administration. They often got all they could from Congress, and made it a point to expend all they got.

Under the Budget plan we were able to reverse the policy and awaken a spirit of economy and efficiency in the public service. We not only insisted that requests for appropriations should stand the minutest inquiry, but after reduced appropriations were granted, we insisted on expending less than the appropriations. There was no proposal to diminish Government activities required by law or demanded by public need, but there was first the commitment to efficiency and then commendable strife for economy.

We effaced the inexcusable and very costly impression that Government departments must expend all their appropriations, that no available cash should return to the Treasury. And we sought to inspire as well as exact, in the practices of economy.

One illustration will not be amiss. On June 8, 1921, before the budget was in operation, word came to me that the business head of one of our institutions, far from Washington, was puzzling how to expend \$42,000 which he had in excess of actual needs. Ordinarily such a matter would never reach the Chief Executive. But this one did, and I wired a warning, and followed it with a letter reciting the need of retrenchment everywhere, and expressed the hope that every Government official with spending authority would in reducing the Government outlay. The appeal was effective, and this one Government agent not only saved most of his available \$42,000 for that fiscal year, but in 1922 he saved \$81,000 more. He proved what could be done, and we are seeking to do it everywhere.

Do not imagine it has all been easy. It is very popular to expend, and there are ruffled feelings in every case of denial. But there is gratifying results in firm resolution and the insistent application of business methods.

The Budget Director is the agent of the President, and he speaks on the authority of the Government's Chief Executive. One day last winter the director came to me in great anxiety, telling me that a department chief would not sanction an \$8,000,000 cut in his es-

timates. At that time we were seeking to prevent a threatened excess of expenditures over receipts amounting to \$800,000,000 for the next fiscal year.

I sent for the department head, and he was still insistent in his opposition to the reduced estimate. I called for a conference of the department experts and the budget experts, and told them that if they could not agree, I would decide. They conferred, and instead of returning to me for decision, the estimate was cut more than \$12,000,000. The point is that we have introduced business methods in government, and instead of operating blindly and to suit individual departments which had never visualized the Government as a whole, and felt no concern about the raising of funds, we are scrutinizing, justifying, coordinating, and not only halting mounting cost, but making long strides in reducing the cost of Government activities.

Perhaps the budget system would not accomplish so much for taxing and spending divisions smaller than the State, but a resolute commitment to strike at all extravagance and expend public funds as one would for himself in his personal and business affairs will accomplish wonders.

It is largely unmindfulness that piles up the burden. Able and honorable men often press for a Federal expenditure to be made in their own community or in other ways helpful to their own interests which they would strongly oppose if they were not directly concerned. This is true of Federal appropriation as well as municipal, county, and State expenditure, and I know of no remedy unless public officials are brought to understand the menace in excessive tax burdens and indebtedness, beyond extinguishment except in drastic action, and resolve to employ practicable business methods in Government everywhere, and resist the assault of the spenders.

It is too early to know whether there is a republic of ancient times with which appropriately to parallel our own. We know of their rise and fall, and we may learn the lessons in their failures. A simple-living, thrifty people, with simple, honest, and just government never failed to grow in influence and power. The coming of extravagance and profligacy in private life, and wastefulness and excesses in public life ever proclaimed the failures which history has recorded.

I would not urge the stingy, skimpy, hoarding life of individuals, or an inadequate program of government. The latter must always rise to deliberate public demand. But private life and public practices are inseparably associated.

I would have our Government adequate in every locality and in every activity, and public sentiment will demand it and secure it, and

require no more, if we may have the simple and thrifty life which makes the healthful nation.

These reflections, my countrymen, are not conceived in doubt or pessimism. We have so nobly begun, we are so boundless in resources, we have wrought so notably in our short national existence, that I wish these United States to go on securely. I would like developing dangers noted and appraised and intelligently and patriotically guarded against. A nation of inconsiderate spenders is never secure. We wish our United States everlastingly secure.

War brought us the lesson that we had not been so American in spirit as we had honestly pretended. Some of our adopted citizenship wore the habiliments of America, but were not consecrated in soul. Some to whom we have given all the advantages of American citizenship would destroy the very institutions under which they have accepted our hospitality. Hence our commitment to the necessary Americanization which we too long neglected. The American Legion, baptized anew in the supreme test on foreign battle fields, is playing its splendid part. Those who bore war's burdens at home have joined, and all America must fully participate. It is not enough to enlist the sincere allegiance of those who come to accept our citizenship; we must make sure for ourselves, for all of us, that we cling to the fundamentals, to the practices which enabled us to build so successfully, and avoid the errors which tend to impair our vigor and becloud our future.

